

National Digital Library Program

Annual Review 1998

Independent Auditor's Report

To the Steering Committee
National Digital Library Trust Fund

We have audited the National Digital Library Trust Fund (NDLT Fund) for the fiscal year 1998.

In our opinion:

- The financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles;

We found:

- No material weaknesses in internal control over financial reporting; and
- No instances of noncompliance with selected provisions of laws and regulations tested.

Each of these conclusions is described in more detail below. This report also discusses the scope of our work.

Opinion On Financial Statements

We have audited the accompanying statement of financial position of the NDLT Fund as of September 30, 1998, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the NDLT Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the NDLT Fund as of September 30, 1998, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information contained is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the NDLT Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the NDLT Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management, the NDLT Steering Committee and Congress. However, this report is a matter of public record, and its distribution is not limited.

Greenbelt, Maryland
February 5, 1999

NATIONAL DIGITAL LIBRARY TRUST FUND

STATEMENT OF FINANCIAL POSITION

September 30, 1998

ASSETS

Cash	\$ 449,354
Investments (Note 2)	15,102,249
Receivables:	
Pledges (Note 3)	12,831,537
Accrued Interest	168,975
Accounts	<u>1,679</u>
Total Receivables	13,002,191
Operating Materials and Supplies	<u>152</u>
Total assets	\$ <u>28,553,946</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 610,151
Accrued payroll and benefits	<u>115,630</u>
Total liabilities	<u>725,781</u>

NET ASSETS (Note 4)

Temporarily Restricted	27,828,165
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Total liabilities and net assets	\$ <u>28,553,946</u>
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The accompanying notes are an integral part of these financial statements.

NATIONAL DIGITAL LIBRARY TRUST FUND

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 1998

CHANGES IN UNRESTRICTED NET ASSETS

REVENUE

Imputed financing sources (Note 6)	\$ 88,129
Interest	751,987
Net assets released from restrictions	<u>4,645,869</u>

Total revenues 5,485,985

EXPENSES

Personnel costs	2,383,792
Digitizing and other services	1,570,370
Awards to other archival institutions (Ameritech)	611,686
Professional and consultant services	490,928
Non-capitalized equipment	105,200
Printing, publishing, and photoduplicating	82,549
Rental	51,090
Computer software	50,196
Travel and transportation	42,090
Office supplies	41,987
Tuition and training	25,751
Services of the Library and other agencies	18,099
Entertainment	9,164
Postage	2,248
Books and library materials	724
Security investigations	66
Allowance for Bad Debts	<u>45</u>

Total expenses 5,485,985

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Donations (Note 5)	12,639,913
Net assets released from restrictions	<u>(4,645,869)</u>
Changes in Temporarily Restricted Net Assets	<u>7,994,044</u>

Increase in Net Assets 7,994,044

Net Assets at Beginning of Year 19,834,121

Net Assets at End of Year \$ 27,828,165

The accompanying notes are an integral part of these financial statements.

NATIONAL DIGITAL LIBRARY TRUST FUND
STATEMENT OF CASH FLOWS
For the Fiscal year Ended September 30, 1998

<i>Cash flows from operating activities:</i>	
Donations Received	\$ 7,895,365
Interest Received	583,011
Cash paid to others	(2,266,444)
Cash paid to employees	<u>(2,615,654)</u>
<i>Net cash provided by operating activities</i>	\$ <u>3,596,278</u>
<i>Cash flows from investing activities:</i>	
Investment in U.S. Treasury Market Based Securities	\$(10,749,281)
Redemption of Investment in U.S. Treasury Market Based Securities	<u>6,890,716</u>
<i>Net cash provided by investing activities</i>	\$ <u>(3,858,565)</u>
<i>Net (Decrease) in Cash</i>	(262,287)
<i>Cash at beginning of year</i>	<u>711,641</u>
<i>Cash at end of year</i>	\$ <u><u>449,354</u></u>
Reconciliation of Changes in Net Assets to Net Cash From Operating Activities	
<i>Changes in Net Assets</i>	\$ 7,994,044
Adjustments to reconcile changes in net assets to net cash provided from operating activities	
(Increase) pledges receivables	(4,744,548)
(Increase) in accounts receivables	(894)
(Increase) in accrued interest receivables	(168,976)
Increase in accrued payroll and annual leave	29,219
Increase in accounts payable	487,585
(Increase) in Operating Materials & Supplies	<u>(152)</u>
Total Adjustments	(4,397,766)
<i>Net Cash from Operating Activities</i>	\$ <u>3,596,278</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL DIGITAL LIBRARY TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
September 30, 1998

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

A. DESCRIPTION OF FUND

The National Digital Library Trust Fund (NDLTF) supports the mission and strategic objectives of the National Digital Library program (NDLP). The program is a public-private partnership created to digitize American history and cultural materials, to build a broad-based national coalition of digital archives and libraries, to provide access to electronic materials, to develop a catalog for electronic materials, to promote standards and practices for the use of digital materials, and to provide other related future services. The NDLP, when completed, will be an unsurpassed on-line resource for the study of American history and culture. Making priceless treasures of American history accessible to all Americans in their own local communities is central to the Library's goal of enriching education in America and widening access to the documentary record of America's knowledge and creativity.

The National Digital Library Trust Fund consists of the following sub-accounts:

- NDLP General Trust
- Scott Trust
- Kellogg Trust
- Ameritech Trust
- McCormick Tribune Trust
- Koch Foundation Trust
- Mellon Foundation Trust
- Microsoft Trust
- Pew Millennium Trust

The NDLTF is the primary private sector source of funding for the NDLP. The program also receives funding from appropriated funds, a gift fund, and an endowment fund.

The NDLTF was approved by the Library of Congress Trust Fund Board and the Joint Committee on the Library in September 1994 and operates on a fiscal year beginning October 1 and ending September 30.

Significant accounting policies followed by the NDLTF are presented below.

B. BASIS OF PRESENTATION

The Fund's financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles.

Effective for fiscal 1998, the fund adopted financial reporting standards applicable to not-for-profit organizations. The financial statements are prepared in accordance with Financial Accounting Standards No. 117, and recognizes net assets based on the existence of applicable restrictions limiting their use.

Temporarily restricted net assets result from donor-imposed restrictions that permit the Fund to use or expend the assets after the restriction has been satisfied. When a donor-imposed restriction is satisfied, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Unrestricted net assets result from the expiration of donor-imposed restrictions on contributions. These assets are available to the Fund for use in support of current operations. The Library of Congress provides support services to the NDLTF and the cost of these services are, by their nature, indirect, difficult to quantify, and financed with appropriated funds of the library. To the extent that these services are provided, they are not considered operating expenses of the NDLTF.

C. USE OF ESTIMATES

The preparation of the NDLTF's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

D. DONATIONS AND REVENUE RECOGNITION

The NDLTF records as donation revenue amounts received in the form of cash, promises or pledges to give. All donations are temporarily restricted for the purpose of the NDLTF and are not available for the support of general Library activities. Unconditional promises or pledges to give are recognized as a pledges receivable. Multi-year pledges or promises due over a period of time are discounted to their present value, based upon prevailing interest rates, and recognized in the period of initial pledge.

E. CAPITAL ASSETS

The financial statements do not include capital assets which are purchased for the Library of Congress and other funds. Capital assets are expensed when purchased and ownership is transferred to the Library of Congress.

F. INCOME TAX

The NDLTF operates for the benefit of the Library of Congress which is an instrument of the United States and, as such, is not subject to income tax.

G. INVESTMENT POLICY

The Library of Congress Trust Fund Board determines the investment policy for the Library's trust funds. NDLTF are invested in a pool of U.S. Treasury market-based securities.

Investments in U.S. Treasury market-based securities are stated at cost net of any unamortized premium or discount, which approximates market value at September 30, 1998.

NOTE 2 - INVESTMENTS

The NDLTF invests in U.S. Treasury short-term securities. Investments consisted of the following:

Investment	Cost	Unamortized Premium	Unrealized Discount	Net Investment
NDL General Trust	\$11,777,611	\$183,365	\$ 61,874	\$ 11,899,102
Scott Trust *	370,234	5,766	1,946	374,054
Kellogg Trust	658,601	10,254	3,460	665,395
Ameritech Trust	410,462	6,391	2,156	414,697
McCormick Trust	1,007,647	15,688	5,294	1,018,041
Koch Foundation Trust	101,548	1,582	534	102,596
Mellon Foundation Trust	47,726	743	251	48,218
Microsoft Trust	246,305	3,836	1,294	248,847
Pew Charitable Trust	327,916	5,106	1,723	331,299
Total Trusts	\$14,948,050	\$232,731	\$78,532	\$15,102,249

* The investments are accrued in the General Trust Fund

NOTE 3 - PLEDGES

Contributions of unconditional promises to give (pledges) to the NDLTF are recognized as revenue in the period received. They are recorded at their present value using a market discount rate. Accretion of the discount in subsequent years is also recorded as revenue. Outstanding pledges of \$14,262,707 at September 30, 1998, were discounted through fiscal year 2001 at a market discount rate and are included in the statement of financial position at their discounted present value of \$12,831,537. The amounts due in future years at their current discounted value are: \$4,355,251 in fiscal 1999; \$3,732,286 in fiscal 2000; \$1,869,150 in fiscal 2001; \$1,264,650 in fiscal 2002; and \$1,610,200 in fiscal 2003.

NOTE 4 - NET ASSETS

During fiscal 1998, the National Digital Library implemented SFAS No. 117. As a result, the beginning balance of temporarily restricted net assets for fiscal 1998 has been restated to reflect the retroactive application of the new accounting standard. The effect of this restatements is as follows:

Restatement of Beginning net Asset Balances	Amount as Reported	Adjustments	Amount as Reported
Cumulative Results of Operations	19,834,121	(19,834,121)	- 0 -
Net Assets:			
Temporarily Restricted	<u>- 0 -</u>	<u>19,834,121</u>	<u>19,834,121</u>
Total Beginning Net Assets	19,834,121 =====	- 0 - =====	19,834,121 =====

Net assets includes undelivered orders of \$942,083 which are funds that have been obligated for goods and services not yet received for NDLTF operations and designated projects. All assets are temporarily restricted for the purpose of supporting the objectives of the National Digital Library Program.

NOTE 5 - DONATIONS

The NDLTF donations excludes a grant from the Ford Foundation of \$500,000 in support of the National Digital Library received as a gift fund and an endowment from the Harissios Papamarkou Chair in Education Fund.

NOTE 6 - IMPUTED FINANCING FOR COST SUBSIDIES

An adjustment of \$88,129 was recorded as an imputed financing source and a corresponding expense in the accompanying financial statements. This adjustment recognizes the full cost of pensions and other health and life insurance benefits during the employee's active years of service.

NOTE 7 - RETIREMENT PLANS

Employees of the NDLTF participate in two different retirement plans. Civil Service employees participate in the Civil Service Retirement System (CSRS) or the Federal employees' Retirement System (FERS). FERS is the system in effect for most employees hired after December 31, 1983.

In fiscal 1998, the NDLTF paid approximately \$147,362 to fund retirement benefits, excluding FICA Taxes.

NOTE 8 - SUBSEQUENT EVENTS

During fiscal 1998, John W. Kluge, Chairman, James Madison Council made a matching pledge to the National Digital Library Trust Fund (NDLTF). For every dollar the Library raised, up to \$2.5 million, Mr. Kluge pledged two dollars. As of September 30, 1998, the Library had raised \$2.5 million qualifying it for the matching pledge of \$5 million from Mr. Kluge.

Mr. Kluge's pledge included a provision which stipulated that the Library could use his gift or a portion of his gift for support of the Library's Bicentennial celebration when gifts from other donors exceeded the required matching amount of \$2.5 million. Furthermore, he indicated that the reallocation amount, if any, should be transferred to the James Madison Council Trust Fund. As of September 30, 1998, this provision was not operative because the amount of the matching gifts had not exceeded \$2.5 million.

As of January 6, 1999, the Library has received additional NDLTF gifts of more than \$3 million that make the original amount given by Mr. Kluge to the NDLTF subject to reallocation. The Library has not determined the specific amount that will be allocated to the James Madison Council Trust Fund.

NATIONAL DIGITAL LIBRARY TRUST FUND
CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Fiscal Year Ended September 30, 1998

	NDL General Trust	Scott Trust	Kellogg Trust	Ameritech Trust	McCormick Tribune Trust	Koch Foundation Trust	Mellon Foundation Trust	Microsoft Trust	Pew Charitable Trust	Combined	Elimination	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS												
REVENUE												
Imputed financing sources (Note 6)	\$ 77,300	\$ 10,767	\$ 62							\$ 88,129		\$ 88,129
Interest	603,231		43,159	\$ 33,974	\$ 53,319	\$ 5,324	\$ 3,304	\$ 5,464	\$ 4,212	751,987		751,987
Net assets released from restrictions	2,536,124	492,458	604,912	610,194			470,500			4,714,188	\$ (68,319)	4,645,869
Total revenues	<u>3,216,655</u>	<u>503,225</u>	<u>648,133</u>	<u>644,168</u>	<u>53,319</u>	<u>5,324</u>	<u>473,804</u>	<u>5,464</u>	<u>4,212</u>	<u>5,554,304</u>	<u>(68,319)</u>	<u>5,485,985</u>
EXPENSES												
Personnel costs	2,185,358	196,880	496	1,058						2,383,792		2,383,792
Digitizing and other services	593,515	750	489,796	12,505			473,804			1,570,370		1,570,370
Awards to other archival institutions (Ameritech)				611,686						611,686		611,686
Professional and consultant services	99,137	232,284	148,852	10,655						490,928		490,928
Non-capitalized equipment	105,200									105,200		105,200
Printing, publishing, and photoduplicating	87,217	75	889	(5,632)						82,549		82,549
Rental		51,090								51,090		51,090
Computer software	47,800		2,075	321						50,196		50,196
Travel and transportation	16,116	16,304	5,825	3,845						42,090		42,090
Office supplies	40,231	456	200	1,100						41,987		41,987
Tuition and training	25,751									25,751		25,751
Services of the Library and other agencies	10,599			7,500						18,099		18,099
Entertainment	3,015	5,386		763						9,164		9,164
Postage	1,881			367						2,248		2,248
Books and library materials	724									724		724
Security investigations	66									66		66
Allowance for Bad Debts	45									45		45
Total expenses	<u>3,216,655</u>	<u>503,225</u>	<u>648,133</u>	<u>644,168</u>			<u>473,804</u>			<u>5,485,985</u>		<u>5,485,985</u>
INCREASE IN UNRESTRICTED NET ASSETS												
					53,319	5,324		5,464	4,212	68,319	(68,319)	
CHANGES IN TEMPORARY RESTRICTED NET ASSETS												
Donations (Note 5)	8,818,369	1,935,120		58,050		100,000	520,000	250,000	958,374	12,639,913		12,639,913
Net assets released from restrictions	(2,536,124)	(492,458)	(604,912)	(610,194)			(470,500)			(4,714,188)	68,319	(4,645,869)
Changes in Temporary Restricted Net Assets	<u>6,282,245</u>	<u>1,442,662</u>	<u>(604,912)</u>	<u>(552,144)</u>		<u>100,000</u>	<u>49,500</u>	<u>250,000</u>	<u>958,374</u>	<u>7,925,725</u>	<u>68,319</u>	<u>7,994,044</u>
Increase in Net Assets	<u>6,282,245</u>	<u>1,442,662</u>	<u>(604,912)</u>	<u>(552,144)</u>		<u>100,000</u>	<u>49,500</u>	<u>250,000</u>	<u>958,374</u>	<u>7,925,725</u>	<u>68,319</u>	<u>7,994,044</u>
Net Assets at Beginning of Year	<u>16,367,158</u>		<u>1,135,747</u>	<u>1,337,055</u>	<u>994,161</u>					<u>19,834,121</u>		<u>19,834,121</u>
Net Assets at End of Year	<u>\$ 22,649,403</u>	<u>\$ 1,442,662</u>	<u>\$ 530,835</u>	<u>\$ 784,911</u>	<u>\$ 994,161</u>	<u>\$ 100,000</u>	<u>\$ 49,500</u>	<u>\$ 250,000</u>	<u>\$ 958,374</u>	<u>\$ 27,759,846</u>	<u>\$ 68,319</u>	<u>\$ 27,828,165</u>

**NATIONAL DIGITAL LIBRARY TRUST FUND
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

September 30, 1998

	<u>NDL General Trust</u>	<u>Scott Trust</u>	<u>Kellogg Trust</u>	<u>Ameritech Trust</u>	<u>McCormick Tribune Trust</u>	<u>Koch Foundation Trust</u>	<u>Mellon Foundation Trust</u>	<u>Microsoft Trust</u>	<u>Pew Charitable Trust</u>	<u>Combined</u>	<u>Elimination</u>	<u>Consolidated</u>
ASSETS												
Cash	\$ 334,024	\$ 5,760	\$ 10,244	\$ 72,398	\$ 15,673	\$ 1,580	\$ 742	\$ 3,832	\$ 5,101	\$ 449,354		\$ 449,354
Investments (Note 2)	11,898,910	374,246	665,395	414,697	1,018,041	102,596	48,218	248,847	331,299	15,102,249		15,102,249
Receivables:												
Pledges (Note 3)	10,547,588	1,183,120		478,350					622,479	12,831,537		12,831,537
Accrued Interest	137,321		7,445	4,639	11,390	1,148	540	2,785	3,707	168,975		168,975
Accounts	1,679				2,376					4,055	\$ (2,376)	1,679
Total Receivables	<u>10,686,588</u>	<u>1,183,120</u>	<u>7,445</u>	<u>482,989</u>	<u>13,766</u>	<u>1,148</u>	<u>540</u>	<u>2,785</u>	<u>626,186</u>	<u>13,004,567</u>	<u>(2,376)</u>	<u>13,002,191</u>
Operating Materials & Supplies	119			33						152		152
Total assets	<u>\$ 22,919,641</u>	<u>\$ 1,563,126</u>	<u>\$ 683,084</u>	<u>\$ 970,117</u>	<u>\$ 1,047,480</u>	<u>\$ 105,324</u>	<u>\$ 49,500</u>	<u>\$ 255,464</u>	<u>\$ 962,586</u>	<u>\$ 28,556,322</u>	<u>\$ (2,376)</u>	<u>\$ 28,553,946</u>
LIABILITIES												
Accounts payable	\$ 166,850	\$ 108,222	\$ 152,249	\$ 185,206						\$ 612,527	\$ (2,376)	\$ 610,151
Accrued payroll and benefits	<u>103,388</u>	<u>12,242</u>								<u>115,630</u>		<u>115,630</u>
Total liabilities	<u>270,238</u>	<u>120,464</u>	<u>152,249</u>	<u>185,206</u>						<u>728,157</u>	<u>(2,376)</u>	<u>725,781</u>
NET ASSETS (Note 4)												
Unrestricted					\$ 53,319	\$ 5,324		\$ 5,464	\$ 4,212	\$ 68,319	\$ (68,319)	
Temporarily restricted	<u>22,649,403</u>	<u>1,442,662</u>	<u>530,835</u>	<u>784,911</u>	<u>994,161</u>	<u>100,000</u>	<u>\$ 49,500</u>	<u>250,000</u>	<u>958,374</u>	<u>27,759,846</u>	<u>68,319</u>	<u>27,828,165</u>
Total liabilities and net assets	<u>\$ 22,919,641</u>	<u>\$ 1,563,126</u>	<u>\$ 683,084</u>	<u>\$ 970,117</u>	<u>\$ 1,047,480</u>	<u>\$ 105,324</u>	<u>\$ 49,500</u>	<u>\$ 255,464</u>	<u>\$ 962,586</u>	<u>\$ 28,556,322</u>	<u>\$ (2,376)</u>	<u>\$ 28,553,946</u>